

# North Dakota REV-E-NEWS



Pam Sharp, Director

April 2006

OFFICE OF MANAGEMENT AND BUDGET  
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## MESSAGE FROM THE DIRECTOR

### **Personal income growth, expanding labor force, and continued low unemployment are indicators of the robust North Dakota economy!**

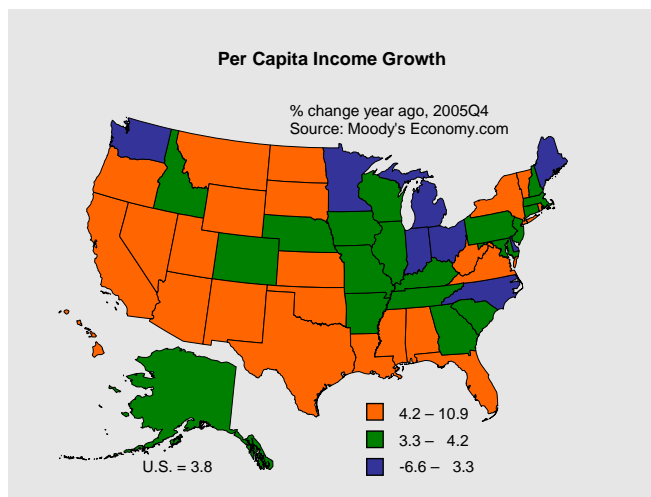
The state's economic vitality is reflected clearly in general fund revenue collections. Monthly collections exceeded the forecast by nearly 10.0 percent and biennium to date collections exceed the forecast by nearly 18.0 percent.

In addition, the general fund cap of \$71.0 million for oil taxes (NDCC Section 57-51.1-07.2) was reached during the month of March. In addition to the general fund collections reflected on this report, \$6.7 million has been reserved for transfer to the permanent oil tax trust fund. All remaining oil tax collections received during the 2005-07 biennium will also be transferred to this fund.

Statistics reported by Job Service North Dakota show that from February 2005 to February

2006, the state's labor force grew by over 6,000 persons, or 1.7 percent. The state's seasonally adjusted unemployment rate remained unchanged at 3.4 percent, considerably lower than the current national average of 4.8 percent.

North Dakota continues to grow in terms of per capita personal income. A March 28, 2006, report released by the Bureau of Economic Analysis shows that personal income grew in North Dakota by over \$1,900 from 2004 to 2005. This growth reflects a change of 6.4 percent, the second highest growth rate in the nation. The average growth rate for the U.S. was 4.6 percent. The following map, prepared by *Moody's Economy.com*, the state's economic forecasting consultant, shows personal income growth in all states from the fourth quarter of 2004 through the fourth quarter of 2005.



Comments or Questions?

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## OIL ACTIVITY

Average oil production in February climbed once again above the 100,000 barrels per day mark, to around 104,000 barrels per day. January production averaged just over 98,000 barrels per day. Drilling permit activity continued to be strong, with 49 new permits being issued; 55 permits were issued in January. The current rig count is 36 rigs, compared to 20 rigs operating one year ago.

The average price for North Dakota crude continues well above forecasted prices and is currently around \$63 per barrel. However, due to limited pipeline capacity and the resulting difficulty transporting North Dakota crude to available refineries, some North Dakota producers have seen their oil discounted by more than \$20 per barrel. The Governor is working with industry officials and the governors in Montana and Wyoming to resolve this issue, increase pipeline capacity, and ensure that North Dakota producers receive an equitable price for North Dakota crude.



**STATEMENT OF GENERAL FUND REVENUES AND FORECASTS**  
***Compared to the Legislative Forecast***  
**2005-07 BIENNIUM**  
**March 2006**

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	March 2005 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>	March 2005 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	21,652,000	26,051,651	4,399,651	20.3%	277,618,000	299,787,859	22,169,859	8.0%
Motor Vehicle Excise Tax	5,679,000	5,167,139	(511,861)	-9.0%	48,801,000	44,289,289	(4,511,711)	-9.2%
Individual Income Tax	5,995,000	4,719,678	(1,275,322)	-21.3%	140,729,000	161,590,262	20,861,262	14.8%
Corporate Income Tax	5,857,000	12,200,715	6,343,715	108.3%	20,213,000	62,184,381	41,971,381	207.6%
Insurance Premium Tax	8,550,000	4,447,938	(4,102,062)	-48.0%	23,544,000	19,400,347	(4,143,653)	-17.6%
Financial Institutions Tax	59,000	825,844	766,844	1299.7%	216,000	899,558	683,558	316.5%
Oil & Gas Production Tax*	2,341,000	2,474,710	133,710	5.7%	21,868,000	45,762,895	23,894,895	109.3%
Gaming Tax	200,000	31,430	(168,570)	-84.3%	7,665,000	6,768,942	(896,058)	-11.7%
Lottery								
Interest Income	282,000	436,943	154,943	54.9%	2,338,000	6,425,874	4,087,874	174.8%
Oil Extraction Tax*	1,727,000	1,364,741	(362,259)	-21.0%	20,373,000	25,237,105	4,864,105	23.9%
Cigarette & Tobacco Tax	1,374,000	1,595,276	221,276	16.1%	14,238,000	16,588,920	2,350,920	16.5%
Departmental Collections	2,302,000	2,432,404	130,404	5.7%	18,791,000	20,595,597	1,804,597	9.6%
Wholesale Liquor Tax	447,000	424,233	(22,767)	-5.1%	4,537,000	4,634,044	97,044	2.1%
Coal Conversion Tax	2,011,000	2,447,699	436,699	21.7%	18,214,000	18,197,912	(16,088)	-0.1%
Mineral Leasing Fees	(250,000)	(777,644)	(527,644)	211.1%	2,250,000	4,470,626	2,220,626	98.7%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					525,000	525,000		0.0%
Other Transfers		(5,176)	(5,176)	100.0%	30,000,000	30,113,705	113,705	0.4%
<b>Total Revenues and Transfers</b>	<b>58,226,000</b>	<b>63,837,581</b>	<b>5,611,581</b>	<b>9.6%</b>	<b>651,920,000</b>	<b>767,472,315</b>	<b>115,552,315</b>	<b>17.7%</b>

\* Oil and gas production and extraction tax collections totaled \$10.5 million in March. Because the \$71.0 million statutory cap for the 2005-07 biennium has been attained, \$6.7 million of the March collections has been reserved for transfer to the Permanent Oil Tax Trust fund and is not reflected on this report.

**STATEMENT OF GENERAL FUND REVENUES AND FORECASTS**  
***Compared to the Previous Biennium Revenues***  
**2005-07 BIENNIUM**  
**March 2006**

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	March 2004	March 2006	Variance	Percent	2003-05	2005-07	Variance	Percent
Sales Tax	25,674,337	26,051,651	377,314	1.5%	256,869,166	299,787,859	42,918,693	16.7%
Motor Vehicle Excise Tax	5,446,180	5,167,139	(279,041)	-5.1%	46,821,986	44,289,289	(2,532,697)	-5.4%
Individual Income Tax	3,387,303	4,719,678	1,332,375	39.3%	134,743,801	161,590,263	26,846,461	19.9%
Corporate Income Tax	8,943,535	12,200,715	3,257,180	36.4%	23,196,050	62,184,381	38,988,332	168.1%
Insurance Premium Tax	6,977,029	4,447,938	(2,529,091)	-36.2%	21,689,212	19,400,346	(2,288,866)	-10.6%
Financial Institutions Tax	650,381	825,844	175,463	27.0%	502,067	899,558	397,491	79.2%
Oil & Gas Production Tax*	3,358,519	2,474,710	(883,809)	-26.3%	19,064,626	45,762,895	26,698,269	140.0%
Gaming Tax	108,522	31,430	(77,092)	-71.0%	8,456,422	6,768,941	(1,687,481)	-20.0%
Lottery								
Interest Income	74,230	436,943	362,713	488.6%	656,039	6,425,874	5,769,835	879.5%
Oil Extraction Tax*	1,810,079	1,364,741	(445,338)	-24.6%	10,932,778	25,237,105	14,304,327	130.8%
Cigarette & Tobacco Tax	1,470,735	1,595,276	124,541	8.5%	15,200,170	16,588,920	1,388,750	9.1%
Departmental Collections	2,557,442	2,432,404	(125,038)	-4.9%	77,222,580	20,595,596	(56,626,984)	-73.3%
Wholesale Liquor Tax	388,072	424,233	36,161	9.3%	4,386,749	4,634,044	247,295	5.6%
Coal Conversion Tax	2,031,753	2,447,699	415,946	20.5%	18,243,115	18,197,912	(45,203)	-0.2%
Mineral Leasing Fees	(567,477)	(777,644)	(210,167)	37.0%	2,435,477	4,470,626	2,035,150	83.6%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					523,575	525,000	1,425	0.3%
Other Transfers	6,533,720	(5,176)	(6,538,896)	-100.1%	19,967,466	30,113,705	10,146,238	50.8%
<b>Total Revenues and Transfers</b>	<b>68,844,361</b>	<b>63,837,581</b>	<b>(5,006,780)</b>	<b>-7.3%</b>	<b>660,911,278</b>	<b>767,472,315</b>	<b>106,561,036</b>	<b>16.1%</b>

\* Oil and gas production and extraction tax collections totaled \$10.5 million in March. Because the \$71.0 million statutory cap for the 2005-07 biennium has been attained, \$6.7 million of the March collections has been reserved for transfer to the Permanent Oil Tax Trust fund and is not reflected on this report.

## Revenue Variances

Overall revenue collections for the month of March exceeded the forecast by \$5.6 million, or 9.6%, bringing biennium to date collections to \$767.5 million, \$115.6 million more than estimated. In comparison to the 2003-05 biennium, 2005-07 biennium revenues have been 16.1 percent higher. Notable variances are as follows:

Sales tax collections exceeded projections for the month by \$4.4 million; biennium to date collections exceed projections by \$22.2 million, or 8.0 percent. Biennium to date collections exceed the previous biennium collections by \$42.9 million.

As has been the case in every month since September 2005, motor vehicle excise tax collections fell short of projections. Monthly collections fell short of the forecast by over \$500,000; the biennium to date variance is \$4.5 million. High fuel prices are a likely contributor to flat or declining automobile sales. Consumer demand for smaller, more fuel efficient vehicles, many of which are lower priced, could be contributing to the decline in gross sales volume.

Individual income tax collections fell short of projections, but still exceed the biennium to date forecast by nearly \$21.0 million.

Corporate income tax collections exceeded the legislative forecast by \$6.3 million for the month, bringing the biennium to date variance to \$42.0 million.

Insurance premium tax collections fell short of projections by \$4.1 million for the month. However, prior to this month, biennium to date collections had varied from the forecast by less than 1 percent. Consequently, it seems likely that the March variance is related to the timing of collections and will reverse itself in the coming months.

As a result of actual crude oil prices and production exceeding the forecast assumptions, oil and gas taxes exceeded the monthly forecast by \$6.5 million, bringing biennium to date collections to \$77.6 million. However, North Dakota Century Code Section 57-51.1-07.2 provides that all oil tax collections in excess of \$71.0 million be deposited in the permanent oil tax trust fund, rather than the general fund. Consequently, the general fund cap was reached during March and all March collections received after reaching the \$71.0 million cap and all remaining collections during the 2005-07 biennium will be transferred to the permanent oil tax trust fund.

Cigarette and tobacco taxes continue to exceed the forecast. February collections exceeded the forecast by over \$220,000. Biennium to date collections exceed the forecast by over \$2.3 million. This appears, in part, to be a result of cross-border buying by Minnesota residents avoiding the comparatively higher cigarette and tobacco tax rates in their home state.

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